

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01 /166 W

----- 016446

R 181626Z JAN 74

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 8346

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS UNN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS UNN

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

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DEPT ALSO PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: NA

TAGS: EFIN, DA

SUBJ: WEAKENING DANISH KRONER

REF: COPENHAGEN 59, 81

1. IN MIDST OF GENERALLY FLUID CURRENCY MARKETS,
DANISH KRONER HAS OVER PAST WEEK GRADUALLY DRIFTED

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TO BOTTOM OF EC SNAKE GIVING RISE TO USUAL, BUT STIWL

QUITE MUTED, RUMORS OF DEVALUATION. ONE ARGUMENT PRESENTED IS THAT DENMARK IS HARDER HIT BY ENERGY CRISIS THAN OTHER EUROPEAN COUNTRIES WHICH, TOGETHER WITH ALREADY WEAK ECONOMY AND HIGH BALANCE OF PAYMENTS DEFICIT, MIGHT REQUIRE CURRENCY ADJUSTMENT TO KEEP IT MORE COMFORTABLY IN SNAKE.

2. BOTH GOVERNOR OF NATIONAL BANK (HOFFMEYER) AND PRINCIPAL ECONOMIST OF ECONOMICS MINISTRY (USSING) HAVE TOLD US THAT NO RPT NO DEVALUATION IS IN PROSPECT. HOFFMEYER FLATLY SAID THAT HE WOULD PREFER TO LOSE HALF OF HIS RESERVES RATHER THAN GO THE DEVALUATION ROUTE WHICH, UNDER CIRCUMSTANCES, WOULD BE MOST FOOLISH MOVE POSSIBLE FOR DENMARK. HE FELT THAT PHENOMENON THIS WEEK MAY IN LARGE PART BE DUE TO GERMAN SALES OF DOLLARS TO BOLSTER DMARK, IMPLYING THAT DENMARK MIGHT BEGIN TO SELL A FEW MORE DOLLARS ALSO. HE ADDED THAT INFOLOW OF FEOMA FUNDS NEXT WEEK WOULD PROBABLY ADD SOME STRENGTH TO THE KRONER.

3. EMBASSY COMMENT: WE AGREE THAT KRONER DEVALUATION NOT NOW RPT NOW LIKELY. PRINCIPAL FOCUS OF DANISH GOVERNMENT CURRENTLY IS BATTLE AGAINST INFLATION. DEVALUATION WOULD, AT LEAST IN SHORT RUN, FEED INFLATION AND OFFER ONLY FRACTIONAL, AND HIGHLY UNCERTAIN, BENEFITS. MOREOVER, PRESENT GOVERNMENT IS POLITICALLY WEAK, BESET BY CONTROVERSY OVER ITS RECENTLY PROPOSED DOMESTIC ECONOMIC PROGRAM (REFTELS), AND NOT LIKELY OR CAPABLE OF TAKING ON ANOTHER CONTROVERSIAL ISSUE AS DEVALUATION WOULD BE. DUNNIGAN

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Message Attributes

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